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SUBJECT: SET BACK FOR FRANCE'S NUCLEAR COMPANY AREVA

REF: 04 PARIS 8615

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1. (SBU) Summary: On October 27, Prime Minister de Villepin cancelled the planned partial privatization of French nuclear powerhouse AREVA, generating a flurry of journalistic commentary, mostly suggesting that the non-privatization will upset the company's planned expansion to take advantage of the coming nuclear 'renaissance.' Insiders confirm the company was very disappointed by the move, and that top management changes are expected. The government's decision also is evidence of a growing tendency to shelter "national champions." End Summary.

Company Reined In

2. (U) France's 94% state-owned nuclear holding company AREVA - with major subsidiaries COGEMA (fuel cycle activities) and FRAMATOME (nuclear plant service and fabrication) - is a world-wide leader in the nuclear field. AREVA USA, the company's 100%-owned U.S. subsidiary is said to be the largest nuclear supplier company in the U.S. In fact, AREVA boasts subsidiaries in dozens of countries and seeks to expand strategically in the U.S. and China to position itself to help build an expected new wave of nuclear power plants. In recent years, AREVA and Siemens of Germany collaborated to design a new, evolutionary nuclear reactor which in Europe is called the European Pressurized Reactor or EPR. The first of these reactors is under construction in Finland for completion in 2009. Electricite de France (EDF), itself undergoing partial privatization, has ordered an EPR for Flamanville in Normandy. If no major problems are encountered or major new innovations develop in the short term, the EPR may well be a first of a kind for a new fleet of power reactors for France, which already produces 78% of its electricity from nuclear power. U.S. utility Constellation Energy recently expressed interest in building an EPR in the U.S.

3. (SBU) To take advantage of what is widely foreseen as a renaissance in the nuclear industry brought on in part by concern over climate change and the high cost of fossil fuels, AREVA planned to expand its capacity to produce nuclear reactor vessels, steam generators, and other nuclear equipment. It had planned to do this in part with funds raised by a partial privatization (see reftel). Moreover, the vision of the company's dynamic leader, Ann Lauvergeon, who is also well-connected politically, is to turn the state company into a fully-fledged private one giving it greater autonomy and flexibility to operate in the complex world of nuclear power. Indeed, a year ago, then Finance Minister Sarkozy had put AREVA on its short list of privatizations for 2005. In March 2005, Finance Minister Breton pushed the partial privatization into 2006. Now, the Prime Minister has all but buried it. (We definitely do not expect further word of AREVA privatization before the outcome of the 2007 elections.) However, somewhat illogically according to some analysts, this announcement contrasts with the government's willingness to proceed with other privatizations. For example, the initial public offering of Electricite de France (EDF) took place last week (see Paris 7373 and 7334) and the privatization of Aeroports de Paris (ADP) is expected in the first quarter of 2006.

But Why?

4. (SBU) Explaining the government's reasoning to drop the privatization, Prime Minister de Villepin claimed that AREVA's nuclear work was too sensitive for the company to proceed with a significant increase in private shareholding. In a widely quoted statement, he remarked, "In a sector as strategic as the supply of fissile material, enrichment and treatment of nuclear waste (i.e., AREVA's core business), it is the State that must provide guarantees to the citizen as

well as to foreign customers." Furthermore, de Villepin contrasted AREVA and EDF saying, "There is a major difference between an electric operator who works within narrow terms of reference (to produce electricity), and the provider for the entire nuclear process."

15. (SBU) The emphasis on the "strategic" nature of AREVA as the rationale for the move highlights yet again de Villepin's economic policy preference for protecting French enterprises, in the belief that the GOF can create "national champions" while appealing to voters' economic patriotism. Using this rationale, however, creates new questions about what exactly the GOF views as the nature of its strategic interest, e.g., whether it is the risk of handling nuclear material that is strategic, or the opportunity of selling nuclear services to potential foreign customers, or whether it is the energy itself, given recent price trends in the petroleum industry. More important for the company, perhaps, is how the GOF plans to offset the aborted capital infusion to maintain or promote whatever it views as its newfound strategic interest. (For more on recent French debates over foreign investment restrictions for strategic sectors, see Paris 6995 and 6570.)

16. (SBU) Other analysts considered de Villepin's comments as mere rationalizations. The overwhelming speculation is that the privatization of AREVA, coming on the heels of EDF and ADP IPOs would be too much, too soon politically for the ruling UMP Party with elections looming. Socialists and union leaders had already objected strenuously to EDF's share offering. Senior socialist figures were quoted as saying that if they were returned to power in the 2007 general elections, they would re-nationalize EDF.

Company Turned Upside Down

17. (SBU) One senior AREVA representative told Embassy ESTH Counselor that he could not suppress his disappointment and bewilderment with the Prime Minister's decision. When asked why the privatization had been cancelled, he replied that he is still searching for a rational explanation, claiming it made "no sense." Nonetheless, he said, the company would have to find other ways to raise capital to satisfy expansion plans. He took umbrage when ESTH Counselor referred to his company as "state-owned," responding that it operated as a private company and was, moreover, profitable. The privatization of AREVA had been in the works for years, he said, in fact since Ann Lauvergeon had assumed chairmanship of the board in 2001. A foreign ministry official with close ties to AREVA also told ESTH Counselor that the cancellation was disappointing for the company and that management changes would take place in summer 2006.

Impact

18. (SBU) Analysts are still considering the effect that AREVA's non-privatization will have on the company's plans. Remaining a government entity will impact the company's ability to raise capital and its flexibility to act aggressively to exploit market opportunities. We also understand that the non-privatization will negatively impact the Atomic Energy Commission's (CEA's) ability to finance the dismantlement of nuclear facilities. Some of the three to four billion euros the AREVA partial privatization would have raised was expected to go to CEA which owns 79% of AREVA's shares.

19. (SBU) On the personnel front, a number of analysts see the non-privatization as a personal blow to CEO Ann Lauvergeon, often referred to as "one of the most powerful women in business." It was her vision to consolidate nuclear entities into a holistic enterprise and increase private shareholding. Her term as chairman ends in summer 2006 and it is widely expected she will then be replaced.

10. (SBU) Comment: By all accounts, the cancellation of AREVA's public offering will significantly impact the company and may alter ambitious plans on the world stage particularly in competition with GE and Westinghouse. These three companies boast of having updated, efficient and safer designs for nuclear power plants. Yet, even without new capital generated by a share offering, AREVA remains a formidable, world class nuclear player. End comment.

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